



How to Relate 'Business Value' to Making Money with Agile

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President

Motivated from Within®

About Jason Tanner



- President of Enthiosys
- Background – Prod Mgmt & Mktg, Proj Mgmt, Sales Engr, NW Engr
- Marine Infantry Officer...Agile?



NetQoS

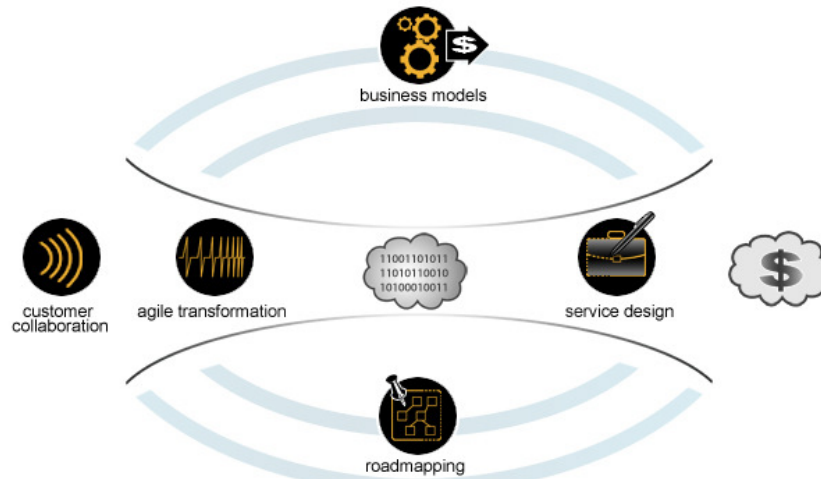
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About Enthiosys



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Agenda



- Objectives and Boundaries
- Preamble – Econ 101 or Why are we here?
- Part 1 – Business Model Framework and Value Exchange Models
- Part 2 – Prioritizing for Profit
- Part 3 – “The Meat” - Economic Description of Business Value
- Wrap Up

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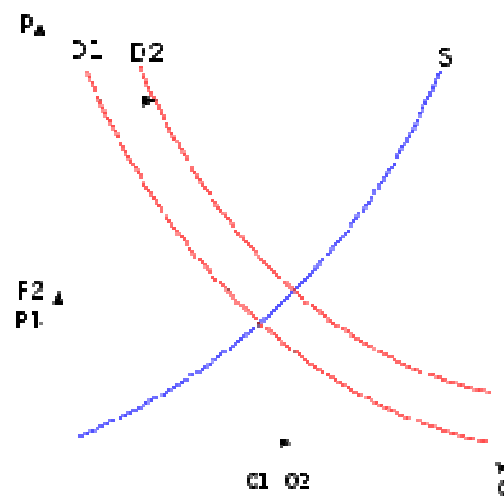
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Objectives and Boundaries



- Objectives
 - Understand methods and techniques to describe business value economically
 - Exchange ideas
- Boundaries
 - Initial pricing is on the edge of this discussion
 - Will not discuss discounting, free trials or pre-payment options
 - Will not discuss licensing or enforcement

Econ 101 – The Goal of Increasing Business Value



Some Key Business Issues



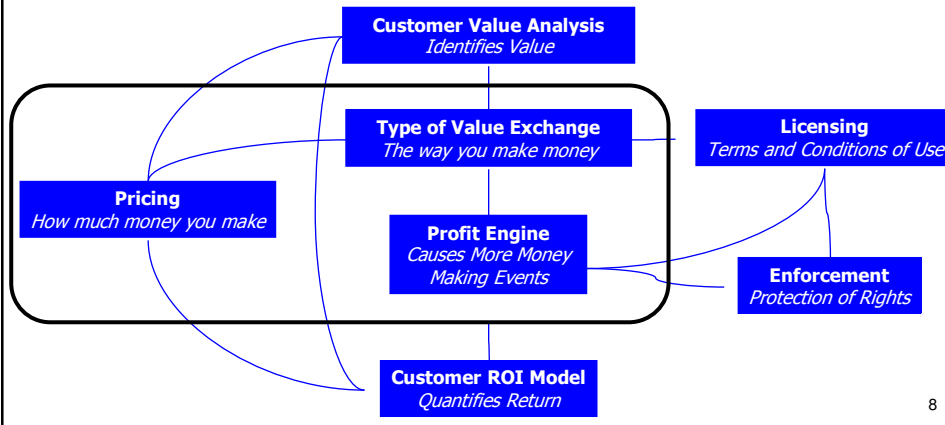
- Business Models
- Licensing
- Portability
- Deployment architecture
- Integration
- Supportability
- Maintainability
- Installation
- Upgrade
- Performance
- Configuration parameters
- Log files



Business Model Framework



A framework of interrelated choices that help you create offerings that provide maximum value.



Value Exchange Models



- The way money is exchanged
- Multiple types of value exchange can co-exist in the same product
e.g., transaction fees and “optional modules”
- OEM / In-licenses may create potential incompatibilities



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Core Value Exchange Models



1. Time-based access (unlimited, annual, monthly)
2. Transaction (stock trade)
3. Metered (device, CPUs, named users)
4. Hardware (appliances, dongles)
5. Service (virus updates, support)
6. Percentage of revenue gained / costs saved
7. Data / Content (FICO, TIGER/Line® files)

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Some Examples...



Transaction Fee: Flat or % of some defined transaction	Visa, Verisign
Perpetual License: Upfront fee + 15-22% annual maintenance	ERP, Most enterprise software
Annual License: Yearly License, must be renewed	ERP, MSFT
Per-user, Concurrent, & Named User	ERP
Per-CPU (Hardware)	MSFT, Oracle, BEA
Service (Subscriptions)	Anti-Virus, AOL, SF
Consumables (Meter)	Printers (paper), Cloud

Architectural Impact



- Value exchange model choices inter-twine themselves with technical choices
 - Does your architecture fully support your model?
 - Are you (perhaps unexpectedly) constrained by business model choices?

Effects of Transactions on Technical Architecture



- Do legal and technical definitions match?
- Uniquely identify & understand entire life
- Capturing the necessary data (schema)
 - Direct: System captures and manages all data necessary to support the business model
 - Indirect: System must be integrated with other systems to capture/manage necessary data
- Reporting/Remittance requirements
 - Format? Security? Auditability?

Start with Customer View



- Customers buy most products to make money or save money
 - How do *they* describe value?
- Quantify it for them
 - They won't spend the time to analyze this fully
- Assume you can capture a fraction of value
 - B2B: often 5% to 15%
 - Consumers often driven by fashion, not analytics

Support the Business Model!



- Pricing drives customer behavior
- What do you want your customers to **do**?
 - Big up-front license (lock up marketplace)
 - No-brainer renewals (small monthly fees)
 - Desire for upgrades (cool features are extra)
 - Install latest version (free updates, increasing service fees)



Multiple Models



- Most software solutions use multiple models
 - Tiered capabilities (entry, standard, expert) per user per month
 - Different units for bigger customers
 - Software support levels (work hours, 7*24)
 - Separately priced “connectors”
 - Additional price for data import or conversion
- Do you have multiple models? Could you? Should you?

Prioritizing For Profit

<http://www.enthiosys.com/insights-tools/prioritizeforprofit1of3/>
<http://www.enthiosys.com/insights-tools/prioritizeforprofit2of3/>
<http://www.enthiosys.com/insights-tools/prioritizeforprofit3of3/>

Backlog Management – Lather, Rinse, Repeat

-
- Identify the work that needs to be done
 - Express it in a way that enables your team to understand it and build it
 - **Prioritize the list**
 - Confirm congruence with your roadmap
 - Make your cut line
 - Negotiate with development to ensure it fits identified release windows during release planning
 - Do it again, again, and again...

Prioritizing Your Backlog

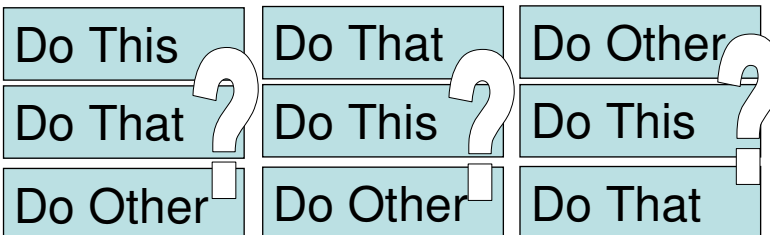
Figuring out order to do the work!

Prioritization Means Ordering

Do This

Do That

Do Other



To Order You Need Attributes



Do This

Do That

Attribute1	Attribute2
------------	------------

What are some prioritization attributes?

To Sort You Need Values



Do This

Do That

Attribute1	Attribute2
------------	------------

<i>value</i>	<i>value</i>
--------------	--------------

<i>value</i>	<i>value</i>
--------------	--------------

It Helps To Group Attributes



	Internal Stakeholders	
	Sales	Service
Do This	yes	no
Do That	no	yes

Does this backlog item directly improve your ability to do your job?

Not Everyone is Equal



	Internal Stakeholders	
	Sales	Service
<i>weight</i>	20	10
Do This	yes	no
Do That	no	yes

Sales has twice the influence

Does this backlog item directly improve your ability to do your job?

Prioritizing For Profit

The groups of attributes that matter the most!

Three Core Groups

Stakeholder Alignment



Shows how you're meeting market needs.

Strategic Alignment



Shows how you align with the big picture.

Driving Profit



Shows how you're going to make money.

Stakeholders



- External: Customer personas
Partners
Channel
- Internal: Sales & Marketing
Professional Service
Customer Care
The System



Strategic Alignment

Why?

Aligning to Strategy



- Get a copy of your strategy
- Work with your portfolio/executive team to understand its weighting
- Demonstrate alignment with backlog

...and, yes, I know, this can be *really* hard, especially when you don't have a clear strategy...

Strategic Alignment



	Strategic Alignment		
	Global	Social	Mobile
<i>weight</i>	25	15	5
Do This	1		1
Do That		1	1

Driving Profit

Money?
What are your profit drivers?



Some Primary Profit Drivers

Reduce Costs

- Licensed components
- Workforce
- Development tools
- Operations
- Fewer features
- Platform architectures

Increase Revenue

- Time to market
- Access to market
- Multiple product opportunities; product families
- Synergistic product sales
- New service offerings
- Enhance operations

Driving Profit



	Driving Profit		
	Increase sales via Int'l partners	Lower Our Customers' Operational Costs	Lower Our Operational Costs
<i>weight</i>	25	15	5
Do This	1		1
Do That		1	1



Putting It All Together

See Spreadsheet

<http://www.enthiosys.com/insights-tools/prioritizing-for-profit/>

And Now the Hard (Interesting) Part

Describing Business Value Economically

Method to Describe Business Value Economically

1. Determine the profit driver for the backlog item
2. Identify the metric(s) affecting the profit driver
3. Gather the data
 - i. Price estimation?
 - ii. Statistics?
 - iii. Internal costs?
4. Calculate the value
 - i. Significant Feature?
 - ii. Bundle or Package
 - iii. New Service
5. Validate internally and/or externally
6. Recalculate as needed

Case Study 1 Information



- Startup SaaS company providing online, collaborative, interactive games
- Current pricing structure is
 - Free or
 - \$55/mo or \$495/yr
- Is there anything else you need to know?

Case Study 1 Features



- User Story 1 – As a facilitator, I need to conduct multiple games simultaneously to increase the number of concurrent players from 8 to 100.
- User Story 2 – As a facilitator, I need the ability to enable another facilitator for a game in case something comes up that prevents me from facilitating a game.
- User Story 3 – As a player, I need (better) online help to guide me and answer my questions.

Case Study 1 Features



- User Story 1 – As a facilitator, I need to conduct multiple games simultaneously to increase the number of concurrent players from 8 to 100.
- User Story 2 – As a facilitator, I need the ability to enable another facilitator for a game in case something comes up that prevents me from facilitating a game.
- User Story 3 – As a player, I need (better) online help to guide me and answer my questions.
- Can I make money from each of these features? How?
- How do you think customers perceive the value or importance of each of these features?
- How do you think customers perceive the value or importance of each of these features relative to each others?



Individual subscriptions	Professional	Standard	Basic	Nonprofit	Free
Monthly subscription	\$ 225	\$ 115	\$ 55	\$ 35	Well, it's free
Yearly subscription	\$ 1995	\$ 995	\$ 495	\$ 249	Still free
	Order Now	Order Now	Order Now	Order Now	Order Now
Games	Professional	Standard	Basic	Nonprofit	Free
<input type="checkbox"/> Buy a Feature	✓	✓	✓	✓	✓
<input type="checkbox"/> Prune the Product Tree	✓	✓	✓	✓	✓
<input type="checkbox"/> Design your own visual game	✓	✓	✓	✓	✓
Privacy	Professional	Standard	Basic	Nonprofit	Free
<input type="checkbox"/> Public Games	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
<input type="checkbox"/> Private Games	Unlimited	Unlimited	100	Unlimited	2
Game Modes	Professional	Standard	Basic	Nonprofit	Free
<input type="checkbox"/> Parties	Unlimited	Unlimited	Unlimited	Unlimited	2
<input type="checkbox"/> Galas	✓	✓		✓	
<input type="checkbox"/> Number of Galas	Unlimited	10		100	
<input type="checkbox"/> Games per Gala	Unlimited	20		10	
Facilitators	Professional	Standard	Basic	Nonprofit	Free
<input type="checkbox"/> Self-facilitated	✓	✓	✓	✓	✓
<input type="checkbox"/> Third party facilitators	✓			✓	



- Created a bundle of unlimited private games and concurrent games (galas) to create new offering at \$115/mo or \$995/yr

Get the world's #1 sales application
 Improve sales productivity, boost your win rates, and grow your revenue. Get started in less than 60 seconds.
Chatter now available for all editions.

Plan	Price /user/month	Free Trial
Contact Manager	\$5	7-day
Group	\$25	14-day
Professional	\$65	30-day
Enterprise (BEST VALUE!)	\$125	30-day
Unlimited	\$250	30-day

Can a new feature or set of features enable you to create a new offering for your product? What could you charge for it? What is the estimated revenue?

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Case Study 2 Information

- 100 yr old F500 life insurance company
- \$5B in revenue with over 10M policies in force
- Distribution
 - 6M whole life
 - 3M term life
 - 1M other (executive, exotic, etc.)
- Central Call Center Volume: ~ 125K calls/mo.
 - ~ 10K self-service transactions/month through web
- Over 20 admin platforms for products sold over past 30 yrs
- CSRs currently use up to 10 different apps to service customers
- Program underway to consolidate service to single app that includes web self-service, IVR, CTI, reporting
- What else would be good to know?

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Case Study 2 Features



- As a CSR, I need the system to automatically return the cash surrender value of an exotic policy.
- As a CSR, I need to change the policy beneficiary of a term life policy in 3 or fewer steps in order to rapidly service a customer.
- As a CSR, I need the loan value of a whole life policy in order to provide information to a customer.

Case Study 2 Features



- As a CSR, I need the system to automatically return the cash surrender value of an exotic policy.
- As a CSR, I need to change the term life policy beneficiary in 3 or fewer steps in order to rapidly service a customer.
- As a CSR, I need the loan value of a whole life policy in order to provide information to a customer.
- Now, what would be good to know?
- How can we determine an economic value for these features?



Summary



- Enhance backlog management through prioritization for profit
- Try the method for determining business value economically
 - New features and enhancements
 - Bugs (classify)
 - Consider implementation costs (yours and your customers')
 - Consider your support costs (including time spent troubleshooting)
 - Consider your integration framework
- Reprioritize as required
- Share what you learn

Contact and Content



Reach me at jtanner@enthiosys.com

More about Agile and business models

- AgilePM blog and Product Bytes newsletter at <http://www.Enthiosys.com/insights-tools/>

Twitter @Enthiosys

Questions?

Appendix

More on Value Exchange Models

Time-Based Access



- Grant “right to use” for a defined period of time (even if you don’t actually use)
 - Perpetual (like Microsoft Windows)
 - Annual (like many ERP)
 - Rental
 - Subscription
- Pay After Use...



Transaction



- Transactions: Measurable units of work
- Exchange of money is always tied to the transaction but value (and price) is often associated with an attribute
 - *Duration* of a phone call
 - *Time of day* call is made
 - *To whom* the call is made



Meter



- Constraining a well-defined resource
- Consuming a well-defined resource
 - Concurrent (e.g., concurrent user)
 - Identifiable resource (e.g., named user)
 - Consumptive (e.g., you have 100 hours)



Hardware



- Associate the amount charged for the software with some element of hardware
 - Software anti-piracy dongles – you pay for both the dongle and the license SDK/run-time
- Huge challenge: software becomes “free”, especially in embedded software
 - Home appliances: microwave ovens
 - Information appliances: router/VPN server
 - Consumer electronics



Service



- The exchange of money is tied to a service; software is required to provide the service or is intimately related to the service
 - Symantec: anti-virus updates
 - Google: company email
 - Red Hat: Linux-related *services* such as support or upgrades
- Often associated with subscription pricing



Revenue Obtained / Cost Saved



- Charge based on revenue obtained or costs saved, often in terms of percentages
 - Retail yield management

ServiceSource, with annual revenue between \$25M - \$50M, says it receives compensation based on the revenue it generates for its clients and charges no consulting, training or implementation fees, or ongoing management costs.

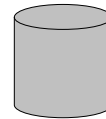
- June 29, 2005, San Jose Mercury News



Data / Content



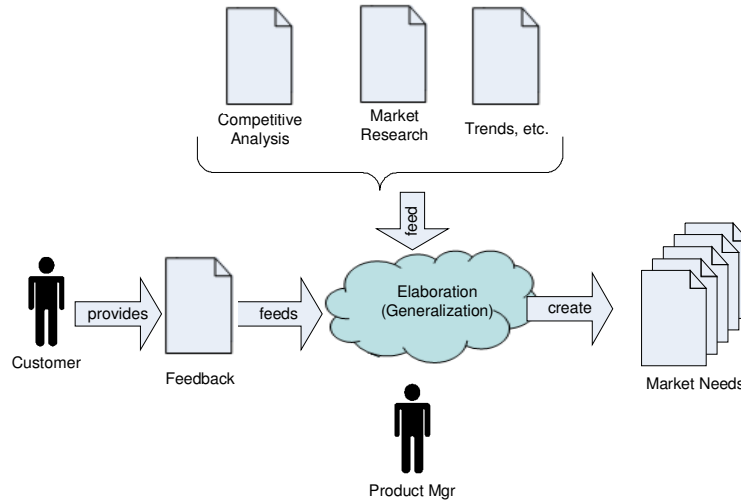
- The software creates unique data/content
- The exchange of value provides access to these data
 - FICO scores
 - re-processed government data (patents, TIGER/Line® files)
- Often associated with subscription pricing



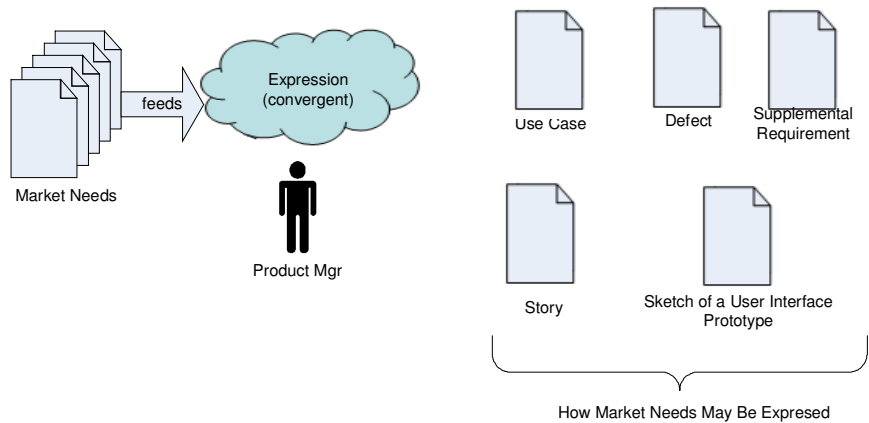
More on Creating Your Backlog

The first step is figuring
out what your market wants!

Identifying Market Needs



Expressing Market Needs

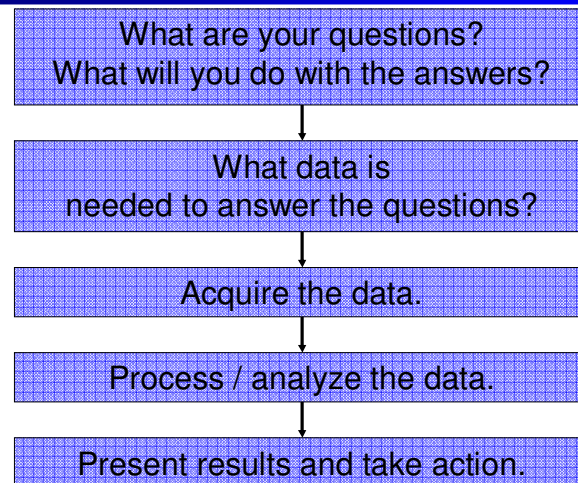


Market Research For Market Needs

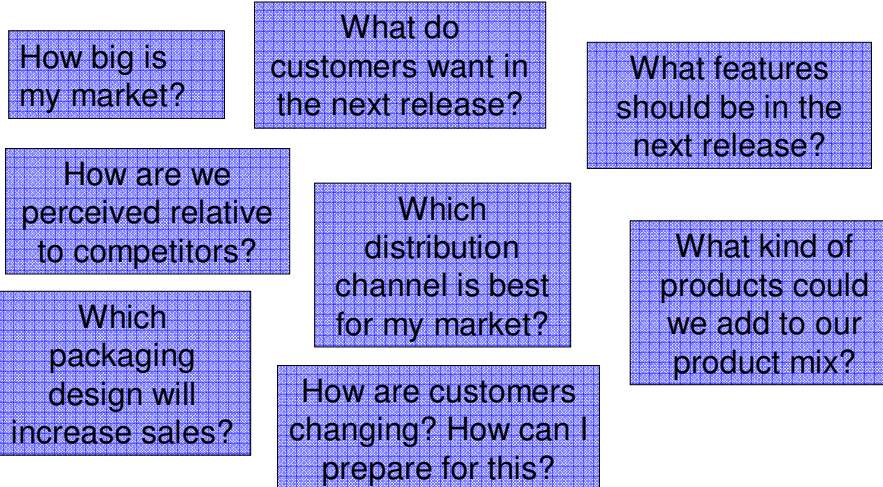


- An ongoing process of finding answers to questions that enhance your understanding of your customers / markets / offerings
 - reduces guesswork; increases confidence
 - ongoing because you, your customers, and the larger product ecosystem are not static
- Creates quality segmentations
- Guides product management

A Market Research Process



What Kinds of Questions?

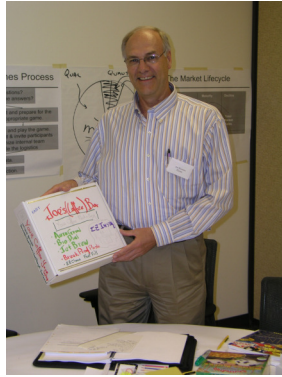


Market Research and User Research Differ

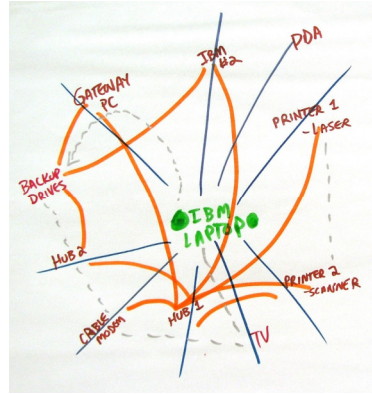


Market Research	User Research
Focuses on the who & the what	Focuses on the how & the why
Evaluates what larger samples say	Evaluates what smaller samples do
Asks people about concepts, opinions and values	Observes what people do
Asks a market what they will buy	Determines how a market will use
Focuses on selling & marketing the product	Focuses on the requirements of the product
Primarily drives product strategy	Primarily drives product design

Qualitative Research with Innovation Games®



Product Box
Identify Exciting Features



Spider Web
Understand Product Relationships